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SENSITIVE

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SUBJECT: GHANA AND AGOA: RECENT SUCCESSES WITH A DIVERSE
APPROACH, BUT EXPORTERS STILL FACE HUGE CHALLENGES

Summary

1. (SBU) In 2004, Ghana increased its exports to the U.S. under the African Growth and Opportunity Act (AGOA) by over 85%, to over \$74 million dollars -- accounting for over 50% of Ghana's total exports to the U.S. In 2005, USAID's West Africa Regional Program's Accra-based West Africa Trade Hub (WATH) has helped Ghanaian firms land contracts with major U.S. retailers, including Wal-Mart. Ghana's AGOA exports are diverse, with apparel contributing just 10% of the total. AGOA's share of Ghana's total exports is under 3%, and potential exporters face erratic supplies, lack of access to capital, high transport costs, tight delivery schedules, and corrupt and congested ports. Although Europe will remain Ghana's dominant trading partner for the foreseeable future, Ghanaian exporters are finally beginning to take advantage of preferential market access under AGOA. End Summary.

West Africa Trade Hub (WATH) Successes

2. (U) The Accra-based Trade Hub, under the USAID-West Africa Regional Program, covers 20 countries. WATH helps West Africa take advantage of global trade opportunities, including working to build the capacity of export-ready companies to develop their products and market them to potential U.S. buyers. WATH targets many sectors, but is clients in the apparel sector have increased sales from \$700,000 in 2004 to potentially more than \$4 million in 2005-2006.

Notable Successes

3. (U) WATH client Belin Textiles (BTI) is run by Mauritian Berty Fong, and partially financed through the GoG's Presidential Special Initiative (PSI). WATH provided support and booth space at the ASAP Global Sourcing Show in Las Vegas in February. At the show Fong struck a deal with one of Wal-Mart's major apparel vendors (Whitewater) that led to a contract for \$2 million worth of apparel. Whitewater also connected BTI with a supplier whose quality standards already meet Wal-Mart's. According to Fong, the entire system can be easily expanded to other factories supported by PSI as orders increase.

4. (U) WATH sponsored Ghana's CAN & KAA fish smoking company to attend the International Boston Seafood Show in March. When the owner was unable to attend, WATH still marketed his products with brochures and photos, generating a \$10,000 test order. If the test order goes well CAN & KAA could land an order for monthly shipments. CAN & KAA has been in business for over 20 years, selling locally and exporting to Europe and has the excess production capacity required by the US customer.

Trade Numbers Small But Growing

5. (U) As a percentage of total exports (\$2.6 billion in 2004), Ghana's AGOA exports are still tiny at 3%. However, the diversity of products that Ghana exports under AGOA makes them less vulnerable to changes in world markets than other African countries' apparel-heavy AGOA trade. The largest contributors are energy related products, primarily petroleum by-products from the Tema Oil Refinery (TOR), which accounted for over 50% of 2004 AGOA exports. Textiles, forest products, and agricultural products all make fairly equal contributions of between \$5-7 million each. All sectors increased in 2004 except forest products. (NOTE: non-AGOA eligible forest product exports are up 30% YTD in 2005 over 2004. END NOTE.)

New Textile Opportunities Come Too Late For Local Suppliers

6. (SBU) During the June 22 Trade and Investment Framework Agreement meeting hosted by USTR in Washington, Commerce officials said the USG would consider including some "batik" print machine-made textiles unique to Ghana under AGOA's Title 9 provisions for traditional crafts. Ghana's larger

textile manufacturers could benefit from batik qualifying from Title 9 benefits, but it may be too late for some of them. Inexpensive imports have flooded the country recently, including some copyrighted Ghanaian designs counterfeited right down to the copyright mark itself. Joapong Textiles--another PSI enterprise partially owned by the GoG --has already closed with the loss of 1,000 jobs. Other textile and apparel companies may also close before they can take advantage of any new opportunities.

Serious Hurdles for Small and Medium Size Exporters

17. (SBU) Despite the help of WATH and other donors, most exporters still face serious hurdles to taking advantage of enhanced market access under AGOA. Supply chains for local raw materials can be erratic. Newly established and unproven companies have almost no access to capital. For established businesses, credit is prohibitively expensive, with interest rates running as high as 25% for short-term loans. Corruption in the ports further degrades the return on exports. One source involved in major reconstruction at the port of Tema claims it can cost as much as \$1,000 in bribes, on top of normal fees, to move a container either into, or out of, the port. The ports are congested, and connecting transport routes are inadequate. There has also been an increase in freight diverted to Ghana from neighboring countries due to local conflicts. As demand on the transport sector has increased, so have prices, and it is becoming more difficult for smaller importers to manage costs.

18. (SBU) Large U.S. customers with worldwide sourcing options naturally dictate the terms of contracts with small suppliers. Most contracts impose stiff penalties for late shipments or poor quality. In order to land large contracts with U.S. importers, small Ghanaian companies often risk as much as an entire quarter's production on one order. With razor-thin margins the consequences of late delivery can be dire. One small Ghanaian furniture manufacturer lost a entire quarter's profit when intermittent supply of raw materials and problems with transport delayed the delivery of an order for Pier One. As a result, the company returned to its tried and true customers in Europe. (Note: European orders are usually much smaller, and shipping is faster and cheaper. End Note)

19. (SBU) Ghana's government is betting on the agricultural sector as the main engine for future economic growth. The agriculture sector is the focus of Ghana's draft proposal for the Millennium Challenge Account, and the PSI program is also heavily focused on agriculture. However, it has been tough going for Ghana's agricultural exporters to break into the U.S. market. Already faced with overwhelming competition from established exporters in Latin America, they are just at the beginning of the process of raising quality and standards to the level of stringent U.S. SPS standards. In the short to medium term, Ghanaian exporters of agricultural products will continue to target the European and regional West African markets.

Comment

10. (SBU) Ghanaian companies are increasingly pursuing opportunities afforded under AGOA's preferential market access, but face huge obstacles and great risks. These firms are challenged by the same factors that face foreign investors: excessive government bureaucracy, endemic petty corruption, inadequate infrastructure, and shortage of qualified labor, in addition to lack of capital and unreliable supply chains. Therefore, most small and medium size enterprises in Ghana assume a risk averse attitude. We will continue to see increasing exports to the U.S. under AGOA (and non-AGOAs exports), as companies gradually gain experience in the U.S. market, find niches where they are competitive, and slowly expand their capacity. However, Europe will remain the export market of choice for most Ghanaian companies due to its proximity, lower SPS requirements, and manageable order sizes. End Comment.

YATES